

## A GUIDE TO THE FUNDING DISBURSEMENT SYNOPSIS

Attached to this letter will be a report for each funding request from the application cited at the top of this letter for which a Recovery of Erroneously Disbursed Funds is required. We are providing the following definitions.

- **FUNDING REQUEST NUMBER (FRN):** A Funding Request Number is assigned by the SLD to each request in Block 5 of your Form 471 once an application has been processed. This number is used to report to applicants and service providers the status of individual discount funding requests submitted on a Form 471.
- **SPIN (Service Provider Identification Number):** A unique number assigned by the Universal Service Administrative Company to service providers seeking payment from the Universal Service Fund for participating in the universal service support programs.
- **SERVICE PROVIDER:** The legal name of the service provider.
- **CONTRACT NUMBER:** The number of the contract between the applicant and the service provider. This will be present only if a contract number was provided on the Form 471.
- **SERVICES ORDERED:** The type of service ordered from the service provider, as shown on Form 471.
- **SITE IDENTIFIER:** The Entity Number listed on Form 471 for "site specific" FRNs.
- **BILLING ACCOUNT NUMBER:** The account number that was established for billing purposes. This will be present only if a Billing Account Number was provided on the Form 471.
- **FUNDING COMMITMENT:** This represents the total amount of requested funding that the SLD committed to this FRN.
- **FUNDS DISBURSED TO DATE:** This represents the total funds that have been paid to you for this FRN.
- **FUNDS TO BE RECOVERED:** This represents the amount of Erroneously Funds Disbursed to Date. These erroneously disbursed funds will have to be recovered.
- **DISBURSED FUNDS RECOVERY EXPLANATION:** This entry provides a description of the reason SLD is seeking the recovery.

## Funding Disbursement Synopsis for Application Number: 107031

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Funding Request Number 108768 SPIN: 143007419

Service Provider: Connect2 Internet Networks Inc.

Contract Number: C

Services Ordered: DEDICATED SERVICES

Site Identifier: 10499 ST AUGUSTINE SCHOOL

Billing Account Number:

Funding Commitment: \$12,648.00

Funds Disbursed to Date: \$5,694.00

Funds to be Recovered: \$4,434.00

Disbursed Funds Recovery Explanation:

After through review it has been determined that \$4,434.00 was erroneously disbursed for this funding request. During an audit, the auditors determined that funds were disbursed for T-1 Service, but less functional ISDN service was delivered, which resulted in SLD disbursing funds in excess of the actual services delivered. This is a violation of the rules of the Schools and Libraries Support Mechanism. Accordingly, the SLD must seek recovery of \$4,434.00.

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Funding Request Number 108769 SPIN: 143007419

Service Provider: Connect2 Internet Networks Inc.

Contract Number: C

Services Ordered: INTERNAL CONNECTIONS

Site Identifier: 10499 ST AUGUSTINE SCHOOL

Billing Account Number:

Funding Commitment: \$43,937.10

Funds Disbursed to Date: \$48,250.80

Funds to be Recovered: \$4,313.70

Disbursed Funds Recovery Explanation:

After a thorough investigation, it has been determined that \$4,313.70 was erroneously disbursed. During an audit, the auditors were unable to locate all of the equipment for which funding had been disbursed and also noted that some of the equipment installed was significantly different from the equipment approved on the Form 471. In total the auditors were unable to locate 13 pieces of equipment, with an associated pre-discount cost of \$4,793.00. This finding is a violation of the rules of the Schools and Libraries Support Mechanism. Accordingly, the SLD must seek recovery of \$4,313.70 (4,793.00\*90%).





Universal Service Administrative Company  
Schools & Libraries Division

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**Administrator's Decision on Appeal - Funding Year 1999-2000**

October 13, 2004

Mark S. Cohen  
Cohen & Gresser LLP  
666 Fifth Avenue, 20<sup>th</sup> Floor  
New York, NY 10103

**RECEIVED**

**OCT 18 2004**

**COHEN & GRESSER LLP**

Re: St. Augustine School

Re: Billed Entity Number: 10499  
471 Application Number: 148729  
Funding Request Number(s): 247607  
Your Correspondence Dated: July 20, 2004

After thorough review and investigation of all relevant facts, the Schools and Libraries Division ("SLD") of the Universal Service Administrative Company ("USAC") has made its decision in regard to your appeal of SLD's Funding Year 1999 Commitment Adjustment Letter for the Application Number indicated above. This letter explains the basis of SLD's decision. The date of this letter begins the 60-day time period for appealing this decision to the Federal Communications Commission ("FCC"). If your letter of appeal included more than one Application Number, please note that for each application for which an appeal is submitted, a separate letter is sent.

Funding Request Number: 247607  
Decision on Appeal: **Denied in full**  
Explanation:

- You are appealing on behalf of Connect2 Internet Networks Inc. On appeal you are address multiple Commitment Adjustment Letters to multiple entities. You assert the reason for repayment requests vary by entity. You also affirm that Mr. Angelides of Connect2 pleaded guilty on May 22, 2003 to 18 U.S.C. §371, during which he agreed to forfeit \$290,000, not the millions referenced in the letters. In light of the criminal prosecution of Mr. Angelides, his illness, and attendant business problems, Connect2 has not transacted any business since 2003 when it closed its office. The funds received by Connect2 from the SLD, which SLD now wants repaid, went largely to the purchase and installation of computer equipment in the serviced schools and to pay the Company's employees, vendors and other overhead; therefore, in light of the aforementioned circumstances, the proceedings are unwarranted.

- Upon review of the appeal letter and the relevant supporting documentation it has been determined by the SLD that the Commitment Adjustment Letter was correctly issued. The audit conducted on the St. Augustine School showed that the school failed to pay their non-discounted portion of the E-rate services. On the FCC Form 471 Services Ordered and Certification Form, block 6, item 22, St. Augustine School certified that it would pay its non-discounted portion. Additionally, the auditors determined that funds were disbursed to Connect2 for T-1 Service for Internet Access service, but less functional ISDN service was delivered, which resulted in the SLD disbursing funds in excess of the actual services delivered. These findings are in violation of the rules of the Schools and Libraries Support Mechanism. Accordingly, the SLD must seek recovery of \$16,632.00. Your appeal has not brought forward persuasive information that the SLD's decision to rescind the commitment for the St. Augustine School was incorrect.
- FCC rules require applicants to certify that, at the time they submit the FCC Form 471, they have secured access to all of the resources, including computers, training, software, maintenance, and electrical connections necessary to make effective use of the products and/or services purchased as well as to pay the non-discounted charges for eligible products and/or services. 47 C.F.R. § 54.504(b); FCC Form 471, Block 6 Item 22. SLD reviews this certification by conducting a "necessary resources" review. The FCC has emphasized the importance of conducting this review to protect the integrity of the schools and libraries support mechanism. *Request for Review by New Orleans Public Schools, Federal-State Joint Board on Universal Service, Changes to the Board of Directors of National Exchange Carrier Association, Inc.*, CC Docket Nos. 96-45 and 97-21, Order, 16 FCC Rcd. 16,653, DA 01-2097 (rel. Sep. 18, 2001). This rule requires the applicant to pay its service provider the full cost of the non-discounted portion owed to the service provider from the funds budgeted within that funding year.
- On the FCC form 473 (Service Provider Certification Form), the service provider certifies that charges reflected on the FCC Form 474 (Service Provider Invoice Form) will be based on bills or invoices billed to the beneficiary. Moreover, instructions to the Form 474 require that the service provider has to provide the products and services and to bill the school or library for the non-discounted portion prior to submitting a FCC Form 473 to USAC/SLD. In addition, the FCC Rules in Sec. 54.507(b) states that a funding year for purposes of the schools and libraries cap shall be the period July 1 through June 30; Section 54.70(e) states that if schools and libraries enter into long term contracts for eligible services, the Administrator (USAC/SLD) shall only commit funds to cover the pro-rated portion of such long term contract scheduled to be delivered during the funding year for which universal service support is sought. Connect2 over-billed SLD for the ISDN services based on T-1 services for Internet Access for FY 1998 and FY 1999 and was not in compliance with rules and regulations. Consequently, your appeal is denied.

If your appeal has been approved, but funding has been reduced or denied, you may appeal these decisions to either the SLD or the Federal Communications Commission (FCC). For appeals that have been denied in full, partially approved, dismissed, or cancelled, you may file an appeal with the FCC. You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. Your appeal must be received or postmarked within 60 days of the date on this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. If you are submitting your appeal via United States Postal Service, send to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554. Further information and options for filing an appeal directly with the FCC can be found in the "Appeals Procedure" posted in the Reference Area of the SLD web site or by contacting the Client Service Bureau. We strongly recommend that you use the electronic filing options.

We thank you for your continued support, patience, and cooperation during the appeal process.

Schools and Libraries Division  
Universal Service Administrative Company

cc: John Dotson  
St. Augustine School  
1176 Franklin Avenue  
Bronx, NY 10456

Connect2 Internet Networks Inc.  
26 Bay Street  
Staten Island, NY 10301 2145



**Universal Service Administrative Company**  
Schools & Libraries Division

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**RECOVERY OF ERRONEOUSLY DISBURSED FUNDS**

June 7, 2004

John Angelides  
Connect2 Internet Networks Inc.  
26 Bay Street  
Staten Island, NY 10301 2145

Re:

Funding Year 1999 -2000  
Form 471 Application Number: 148729  
Applicant Name ST AUGUSTINE SCHOOL  
Contact Person: JOHN DOTSON  
Contact Phone: 718-601-1436

Dear Service Provider Contact:

Reviews of Schools and Libraries Program disbursements occasionally reveal that funds were disbursed in error. Such discoveries may arise out of our periodic audits, attempts by applicants to reduce a funding commitment below the amount already disbursed, or other investigations resulting from our program compliance procedures. For example, funds may be disbursed in error when:

- Services were billed but were not delivered
- Services were billed in excess of the services delivered
- Services were returned but an appropriate refund to SLD was not made

The SLD has determined that the funds detailed on the attached FUNDING DISBURSEMENT SYNOPSIS were disbursed in error. This synopsis includes the specific funding requests, amounts, and reasons for recovery by Funding Request Number (FRN). The SLD must now recover the amount that was disbursed in error.



## FUNDING DISBURSEMENT SYNOPSIS

On the pages following this letter, we have provided a Funding Disbursement Synopsis for the Form 471 application cited above. The enclosed report includes a list of the FRNs from this application for which recovery of erroneously disbursed funds is necessary.

Immediately preceding the Funding Disbursement Report, you will find a guide that defines each line of the Report. The SLD is also sending this information to the applicant named above.

## TO APPEAL THIS DECISION

If you wish to appeal the decision indicated in this letter, your appeal must be **RECEIVED BY THE SCHOOLS AND LIBRARIES DIVISION (SLD) WITHIN 60 DAYS OF THE ABOVE DATE ON THIS LETTER**. Failure to meet this requirement will result in automatic dismissal of your appeal. In your letter of appeal:

1. Include the name, address, telephone number, fax number, and e-mail address (if available) for the person who can most readily discuss this appeal with us.
2. State outright that your letter is an appeal. Identify which Recovery Of Erroneously Disbursed Funds you are appealing. Indicate the funding request number and date of the Disbursed Funds Recovery letter. Your letter of appeal must also include the applicant name, the Form 471 Application Number, and the Billed Entity Number from the top of your letter.
3. When explaining your appeal, include the precise language or text that is at the heart of your appeal. By pointing us to the exact words that give rise to your appeal, the SLD will be able to more readily understand and respond appropriately to your appeal. Please keep your letter to the point, and provide documentation to support your appeal. Be sure to keep copies of your correspondence and documentation.
4. Provide an authorized signature on your letter of appeal.

If you are submitting your appeal on paper, please send your appeal to: Letter of Appeal, Schools and Libraries Division, Box 125 - Correspondence Unit, 80 South Jefferson Road, Whippany, NJ 07981. Additional options for filing an appeal can be found in the "Appeals Procedure" posted in the Reference Area of the SLD web site or by calling the Client Service Bureau. We encourage the use of either the e-mail or fax filing options to expedite filing your appeal.

While we encourage you to resolve your appeal with the SLD first, you have the option of filing an appeal directly with the Federal Communications Commission (FCC). You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. Your appeal must be **RECEIVED BY THE FCC WITHIN 60 DAYS OF THE ABOVE DATE ON THIS LETTER**. Failure to meet this requirement will result in automatic dismissal of your appeal. Further information and options for filing an appeal directly with the FCC can be found in the "Appeals Procedure" posted in the Reference Area of the SLD web site or by calling the

Client Service Bureau. We strongly recommend that you use either the e-mail or fax filing options because of substantial delays in mail delivery to the FCC. If you are submitting your appeal via United States Postal Service, send to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554.

Schools and Libraries Division  
Universal Service Administrative Company

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**Funding Disbursement Synopsis for Application Number: 148729**

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Funding Request Number 247607 SPIN: 143007419

Service Provider: Connect2 Internet Networks Inc.

Contract Number: 2004

Services Ordered: DEDICATED SERVICES

Site Identifier: 10499 ST AUGUSTINE SCHOOL

Billing Account Number:

Funding Commitment: \$0.00

Funds Disbursed to Date: \$16,632.00

Funds to be Recovered: \$16,632.00

**Disbursed Funds Recovery Explanation:**

After a thorough investigation, it has been determined that \$16,632.00 was erroneously disbursed. During an audit, it was determined that the applicant failed to pay the non-discounted portion of E-Rate services. On the Form 471 Service Ordered and Certification Form, Block 6, Item 22, the applicant certified that it would pay its non-discounted portion. Additionally, the auditors determined that funds were disbursed for T-1 Service, but less functional ISDN service was delivered, which resulted in SLD disbursing funds in excess of the actual services delivered. These findings are violations of the rules of the Schools and Libraries Support Mechanism. Accordingly, the SLD must seek recovery of \$16,632.00.



DAVID M. SIEGAL  
Assistant United States Attorney

UNDER SEAL

COMPLAINT

Violations of  
18 U.S.C. §§ 371, 287, 1001,  
1343, 1503, 1519, and 2

COUNTY OF OFFENSE  
NEW YORK

STATE OF NEW YORK )  
COUNTY OF NEW YORK ) ss.:  
SOUTHERN DISTRICT OF NEW YORK )

COURTNEY FOSTER, being duly sworn, deposes and says that she is a Special Agent with the Federal Bureau of Investigation ("FBI"), and charges as follows:

COUNT ONE

1. From at least in or about the Fall 1999, through at least in or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, unlawfully, willfully and knowingly did combine, conspire, confederate and agree together and with each other to violate the laws of the United States, to wit, Title 18, United States Code, Sections 287, 1001, and 1343.

2. It was a part and an object of the conspiracy that JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, unlawfully, willfully and knowingly, having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations and promises, for the purpose of executing such scheme and artifice and

attempting so to do, would and did transmit and cause to be transmitted by means of wire, radio and television communication in interstate and foreign commerce, writings, signs, signals, pictures and sounds for the purpose of executing such a scheme and artifice, in violation of Section 1343 of Title 18, United States Code.

3. It was further a part and an object of the conspiracy that JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, unlawfully, willfully and knowingly, made and presented to persons and officers in the civil service of the United States and to departments and agencies thereof, claims upon and against the United States and departments and agencies thereof, knowing such claims to be false, fictitious and fraudulent, in violation of Section 287 of Title 18, United States Code.

4. It was further a part and an object of the conspiracy that JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others known and unknown, in a matter within the jurisdiction of the executive, legislative and judicial branch of the Government of the United States, unlawfully, willfully and knowingly, falsified, concealed and covered up by trick, scheme and device material facts, and made materially false and fraudulent statements and representations, and made and used false writings and documents knowing the same to contain materially false, fictitious and fraudulent statements and entries, in violation of Section 1001 of Title 18, United States Code.

#### OVERT ACTS

5. In furtherance of said conspiracy and to effect the illegal object thereof, the following overt acts, among others, were committed in the Southern District of New York and elsewhere:

a. On or about January 13, 2000, JOHN ANGELIDES, the defendant, sent by fax communication from Staten Island, New York, to Newark, New Jersey, a letter he signed on behalf of Connect 2 Internet Networks, Inc. ("C2I") stating to the St. Rocco Victoria School that it could participate in the Government E-Rate Program with "absolutely no cost to the school."

b. In or about January 2000, JOHN ANGELIDES, the defendant, told an employee of the Association for the Help of Retarded Children who was in New York, New York, that it could participate in the Government E-Rate Program and incur no cost.

c. On or about January 18, 2000, JOHN ANGELIDES, the defendant, signed a letter on behalf of C2I stating to the St.

John Lutheran School in Queens, New York, that it could participate in the Government E-Rate Program with "absolutely no cost to the school."

d. In or about January 2000, JOHN ANGELIDES and GARY BLUM, the defendants, signed a letter dated January 18, 2000, on behalf of C2I stating to the Islamic Elementary School in Queens, New York, that it could participate in the Government E-Rate Program with "absolutely no cost to the school."

e. On or about January 12, 2001, GARY BLUM, the defendant, sent by fax communication to New York, New York, a letter on behalf of C2I stating to the Association for the Help of Retarded Children that it could participate in the Government E-Rate Program with "no liability" for the portion of the costs of the Program it was required to pay under program rules.

f. On or about July 30, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, the defendant, sent a fax communication from Staten Island, New York, to New Jersey, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that ANGELIDES and his company, C2I, were acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosing false, incomplete and misleading documentation to support that false representation.

g. On or about August 30, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, the defendant, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that ANGELIDES and his company, C2I, were acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosing false, incomplete and misleading documentation to support that false representation.

h. On or about September 7, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, the defendant, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that ANGELIDES and his company, C2I, were acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosing false, incomplete and misleading documentation to support that false representation.

i. On or about September 28, 2001, JOHN DOTSON, the defendant, created two checks in the approximate amounts of \$52,731 and \$2,268, respectively, payable to C2I, intending that they be used by his co-conspirators falsely to represent to the



Government that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program.

j. On or about October 10, 2001, JOHN ANGELIDES, the defendant, paid \$54,999 to JOHN DOTSON, the defendant, in reimbursement for monies that DOTSON paid to C2I on or about September 28, 2001, in order to create the false impression that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program.

k. On or about October 11, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM and OSCAR ALVAREZ, the defendants, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosed false, incomplete and misleading documentation to support that false representation.

l. On or about October 22, 2001, JOHN ANGELIDES, the defendant, with the knowledge of GARY BLUM, and OSCAR ALVAREZ, the defendants, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that C2I was acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosed false, incomplete and misleading documentation to support that false representation.

m. On or about November 21, 2001, JOHN ANGELIDES the defendant, with the knowledge of GARY BLUM, and OSCAR ALVAREZ, the defendants, sent a fax communication from Staten Island, New York, to a compliance analyst for the E-Rate Program in New Jersey, that falsely represented that C2I, was acting in compliance with the rules and regulations of the Government E-Rate Program, and enclosed false, incomplete and misleading documentation to support that false representation.

(Title 18, United States Code, Section 371.)

#### COUNT TWO

6. From at least in or about the Fall 1999, through at least in or about September 23, 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, unlawfully, willfully and knowingly, made and presented to persons and officers in the civil service of the United States and to departments and agencies thereof, claims upon and against the United States and departments and agencies

thereof, knowing such claims to be false, fictitious and fraudulent, to wit, claims for reimbursement from the E-Rate government funding program for services and equipment allegedly provided to the Children's Store Front School based on false representations as described below.

(Title 18, United States Code, Sections 287 and 2.)

COUNT THREE

7. From at least in or about the Fall 1999, through at least in or about November 21, 2001, in the Southern District of New York and elsewhere, JOHN ANGELIDES, OSCAR ALVAREZ, and GARY BLUM, the defendants, unlawfully, willfully and knowingly, made and presented to persons and officers in the civil service of the United States and to departments and agencies thereof, claims upon and against the United States and departments and agencies thereof, knowing such claims to be false, fictitious and fraudulent, to wit, claims for reimbursement from the E-Rate government funding program for services and equipment allegedly provided to the Association for the Help of Retarded Children based on false representations as described below.

(Title 18, United States Code, Sections 287 and 2.)

COUNT FOUR

8. In or about October 11, 2001, in the Southern District of New York and elsewhere, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, in a matter within the jurisdiction of the executive, legislative and judicial branches of the Government of the United States, unlawfully, willfully and knowingly, falsified, concealed and covered up by trick, scheme and device material facts, made materially false, fictitious and fraudulent statements and representations, and made and used false writings and documents knowing the same to contain materially false, fictitious and fraudulent statements and entries, to wit, false statements and concealment of material facts falsely representing that C2I was acting in compliance with the rules and regulations of the E-Rate government funding program regarding its claim for reimbursement related to the Children's Store Front School, as described below.

(Title 18, United States Code, Sections 1001 and 2.)

COUNT FIVE

(9.) In or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, in a matter within the jurisdiction of the executive, legislative and judicial branches of the Government of the United States, unlawfully, willfully and knowingly, falsified, made and used false writings and documents knowing the same to contain materially false, fictitious and fraudulent statements and entries, to wit, backdated invoices and a misleading contractual document falsely representing that C2I was acting in compliance with the rules and regulations of the E-Rate government funding program regarding its claim for reimbursement related to the Islamic Elementary School, as described below.

(Title 18, United States Code, Sections 1001 and 2.)

COUNT SIX

10. From at least in or about December 2001, through at least on or about June 6, 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, the defendant, unlawfully, willfully, knowingly and corruptly influenced, obstructed and impeded, and endeavored to influence, obstruct and impede, the due administration of justice, to wit, the defendant withheld from production to the grand jury the following documents, among others, that were required to be produced pursuant to a grand jury subpoena issued in the Southern District of New York:

Date	Description	Related School
1/11/2000	Letter from St. Rocco Victoria School to C2I, countersigned by JOHN ANGELIDES stating, <u>inter alia</u> , "in accepting the [C2I] proposal there is absolutely no cost to the school."	Saint Rocco Victoria School
1/14/2000	Letter from AHRC to JOHN ANGELIDES, stating, <u>inter alia</u> , "AHRC is absolved from any costs associated with the E-Rate proposal, (specifically, the 10% school costs)."	Association for the Help of Retarded Children

1/12/2001	Letter from GARY BLUM to Association for the Help of Retarded Children, stating, <u>inter alia</u> , "AHRC will have no liabilities for this portion of the costs."	Association for the Help of Retarded Children
1/18/2000	Letter signed by JOHN ANGELIDES and initialed by GARY BLUM from C2I to Islamic Elementary School, stating, <u>inter alia</u> , "It is our agreement that Islamic Elementary School will not be responsible for any cost in the proposal made to Islamic Elementary School by Connect2. . . . In accepting the Connect2 proposal, there is absolutely no cost to the school."	Islamic Elementary School
1/18/2000	Letter signed by JOHN ANGELIDES from C2I to St. John Lutheran School, stating, <u>inter alia</u> , "It is our understanding that St. John Lutheran School will not be responsible for any cost in the proposal made to St. John Lutheran School by Connect2. . . . It is our understanding that in accepting the Connect2 proposal, there is absolutely no cost to the school."	St. John Lutheran School

(Title 18, United States Code, Sections 1503 and 2.)

COUNT SEVEN

11. In or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, and others known and unknown, unlawfully, willfully and knowingly did combine, conspire, confederate and agree together and with each other to violate the laws of the United States, to wit, Section 1519 of Title 18, United States Code.

12. It was a part and an object of the conspiracy that JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, and others known and unknown, unlawfully, willfully and knowingly, altered, destroyed, concealed, covered up, falsified, and made false entries in records, documents, and tangible objects with the intent to impede, obstruct, and influence the investigation and proper administration of matters within the jurisdiction of departments and agencies of the United States, and in relation to and contemplation of such matters, in violation of Section 1519 of Title 18, United States Code.

#### OVERT ACTS

13. In furtherance of said conspiracy and to effect the illegal object thereof, the following overt acts, among others, were committed in the Southern District of New York and elsewhere:

a. In or about October 2002, JOHN ANGELIDES, the defendant, met with a school administrator from the Islamic Elementary School in Queens, New York, and gave that administrator backdated invoices and a purported contract intended to be used for purposes of falsely representing to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

b. On or about October 8, 2002, JOHN ANGELIDES, and OSCAR ALVAREZ, the defendants, met with school administrators from the Islamic Elementary School in Queens, New York, and urged those administrators to falsely represent to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

c. On or about October 9, 2002, JOHN ANGELIDES, the defendant, spoke over the telephone with a school administrator from the Islamic Elementary School who was in New York, New York, and urged that administrator to falsely represent to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

d. On or about October 10, 2002, JOHN ANGELIDES, the defendant, spoke over the telephone with a school administrator from the Islamic Elementary School who was in New York, New York, and urged that administrator to falsely represent to the FCC that C2I was acting in compliance with the rules and regulations of the government E-Rate Program, as described below.

(Title 18, United States Code, Section 371.)

## COUNT EIGHT

14. In or about October 2002, in the Southern District of New York and elsewhere, JOHN ANGELIDES, the defendant, unlawfully, willfully and knowingly, altered, destroyed, concealed, covered up, falsified, and made false entries in records, documents, and tangible objects with the intent to impede, obstruct, and influence the investigation and proper administration of matters within the jurisdiction of departments and agencies of the United States, and in relation to and contemplation of such matters, to wit, attempted to persuade witnesses not to reveal to government auditors documents evidencing his fraudulent conduct related to the E-Rate government funding program, as described below.

(Title 18, United States Code, Sections 1519 and 2.)

The bases for my knowledge and for the foregoing charges are, in part, as follows:

15. I am a Special Agent with the FBI, and I have been involved personally in the investigation of this matter. I am familiar with the facts and circumstances set forth below from my personal participation in the investigation, including interviews I have conducted, my examination of reports and records, and my conversations with other law enforcement officers, including an undercover law enforcement agent. Because this affidavit is being submitted for the limited purpose of establishing probable cause, it does not include all the facts that I have learned during the course of my investigation. Where the contents of documents and the actions, statements and conversations of others are reported herein, they are reported in substance and in part.

### THE E-Rate Program

16. I have spoken with an attorney employed by a private, not-for-profit company called the Universal Service Administration Company ("USAC"), and have reviewed documents and materials provided to me by that attorney and her staff. From these sources, I have learned the following, among other things:

a. In around 1998, the Federal government implemented a program to provide subsidies to schools and libraries in financial need for use in the purchase and installation of internet access and telecommunications services as well as internal computer and communication networks (the "E-Rate Program"). The program is administered under contract with the Government by USAC and a subdivision of USAC called the "Schools and Libraries

Division" ("SLD"). The Federal Communications Commission ("FCC") oversees and regulates USAC and SLD.<sup>1</sup>

b. One of the principal objectives of the E-Rate Program is to encourage economically disadvantaged schools to create and upgrade their internet and communications infrastructure, and provide their students with access to the internet as a learning tool. To further this objective, the Federal government has, since the inception of the program, offered to pay a large portion of the cost of each participant school's infrastructure enhancements, where such schools meet the E-Rate Program's eligibility requirements.

c. One of the Program's core eligibility requirements is that each applicant school pay some percentage of the cost of the infrastructure enhancement. The percentage that the applicable school must pay ranges from 10% to 80%, depending on particular characteristics related to the neediness of each applicant institution (hereinafter, the school's "Undiscounted Share"). The Government pays the balance of that cost, which ranges from as low as 20% to as high as 90%. Among the reasons why the applicant schools are required to pay a portion of the costs are: (i) to ensure that schools have a financial incentive to negotiate for the most favorable prices, so that the government's spending under the program is not wasteful; and (ii) to ensure that schools only purchase infrastructure and equipment that they truly need.

#### CONNECT 2 INTERNET

17. According to public records and witnesses whom I have interviewed, C2I is a vendor of internet and communications infrastructure and related services. JOHN ANGELIDES, the defendant, is the owner and principal officer of C2I. At the relevant times described below, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, were employed by C2I.

18. According to USAC records:

a. A number of schools in the New York City and New Jersey area have applied for and received funding from the E-Rate Program to establish, enhance and/or upgrade those schools' internet infrastructure.

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USAC administers the Universal Service Fund under regulations promulgated by the FCC.

b. In the period from approximately July 1998 to the present, C2I was the vendor of goods and services for more than 200 schools participating in E-Rate. Most of these schools purported to participate at a 90% discount rate (i.e., the discount rate associated with the most financially disadvantaged schools), meaning that the schools were obligated to pay 10% of the cost of goods and services, and C2I sought payment from the Government for the remaining 90%.

c. In the period from approximately July 1998 through approximately June 2001, the Government actually paid C2I more than \$9 million in E-Rate monies for goods and services that C2I provided to approximately 36 schools.

#### SUMMARY OF THE FRAUDULENT SCHEME

19. As described more fully below, JOHN ANGELIDES, JOHN DOTSON, OSCAR ALVAREZ, and GARY BLUM, the defendants, and others not named as defendants herein, devised and carried out a scheme to obtain E-Rate funds for goods and services that C2I provided to various schools on the false pretense that the schools would pay or had paid their required share of the costs of those goods and services. In fact, the defendants charged the schools nothing for these goods and services and assured the schools that they would never have to pay for the goods and services. In this way, the defendants were able to sell almost limitless quantities of E-Rate eligible goods and services to schools across the New York City area, with little or no control on the price they charged, and impose the entire cost on the Government.

20. The defendants and their co-conspirators went to great length to deceive the schools and induce them to participate in the scheme. They also engaged in elaborate efforts to deceive the Government into believing that the schools had paid their Undiscounted Share. As detailed below, the defendants did so by: (a) falsely representing to school administrators that the schools' Undiscounted Share would be covered by "outside grants" or "outside sources of funding" donated to C2I for that purpose; (b) asking the schools to write checks payable to C2I and agreeing not to cash the checks; (c) asking the schools to write checks payable to C2I and agreeing to return the money in cash or by check payable to the schools or their designees; (d) creating back-dated invoices and other phony billing documents to give the false appearance that C2I billed the schools for their Undiscounted Share; (e) concealing communications in which the defendants assured the schools that they would not have to pay for any of the goods and services being supplied by C2I; and (f) attempting to persuade school administrators to lie to government investigators and give them



false and misleading documents, all designed to conceal the scheme and enable the defendants to collect more money from the E-Rate

#### THE INVESTIGATION

21. In or about the Spring and Summer 2001, SLD commenced an investigation into C2I's compliance with the E-Rate Program rules. Beginning in the Spring 2001, analysts and investigators working for USAC and SLD began contacting participant schools and collecting records of their dealings with C2I and its representatives. In or about the Fall of 2001, the FBI commenced an independent criminal investigation of the activities of C2I, which has generated further evidence concerning C2I and the schools to which it provided goods and services.

#### THE AL NOOR SCHOOL

22. According to USAC and SLD records:

a. The Al Noor School, located in Brooklyn, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. Al Noor School participated in the E-Rate Program with a 90% discount rate, meaning that it was eligible to receive from the E-Rate Program 90% of the costs of the eligible computer and internet services and equipment provided by C2I.

c. For the fiscal year of the E-Rate Program covering the period from July 2000 through June 2001 (hereinafter, "Funding Year 3"),<sup>2</sup> C2I applied for E-Rate funds totaling approximately \$851,000 - purportedly 90% of the total costs - for E-Rate eligible goods and services to be provided by C2I to the Al Noor School. The full amount requested was approved and paid to C2I by USAC.

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<sup>2</sup> The E-Rate Program was initiated in 1998, and Funding Years 1 and 2 related to the periods between July 1998 through June 1999, and July 1999 through June 2000, respectively.